

# **PHILIPPINES ECONOMIC WRAP-UP**

**MAY 26 - JUNE 01, 2001**

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**Summary**  
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Weak manufacturing performance in the first quarter contributed to slower GDP growth of 2.5% (year on year) for the quarter. Two key pieces of legislation aimed at government revenue enhancement were vetoed by the President this week. And we also provide a look at debt service problems at some the largest companies in the Philippines.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is now available on our web site.

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**Market and Policy Developments**  
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**FOREX REPORT**  
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The Philippine peso opened weaker on Monday as news of a new terrorist kidnapping in Palawan broke. After some

recovery through the week as other regional currencies appreciated, the peso moved down again to close at P50.750/US\$ from its May 25 close of P50.505/US\$.

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Exchange Rate Tables  
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| Date   | Weighted<br>Average<br>(Pesos/US\$) | Closing<br>(Pesos/US\$) | Volume<br>(Million US\$) |
|--------|-------------------------------------|-------------------------|--------------------------|
|        | -----                               | -----                   | -----                    |
| APR 23 | 50.441                              | 50.480                  | 145.5                    |
| 24     | 50.437                              | 50.415                  | 105.0                    |
| 25     | 50.546                              | 50.550                  | 116.2                    |
| 26     | 50.764                              | 51.000                  | 132.4                    |
| 27     | 51.218                              | 50.870                  | 152.2                    |
| APR 30 | 51.339                              | 51.450                  | 170.9                    |
| MAY 01 | Markets Closed                      |                         |                          |
| 02     | 51.001                              | 50.730                  | 167.5                    |
| 03     | 50.459                              | 50.280                  | 149.2                    |
| 04     | 50.349                              | 50.380                  | 81.3                     |
| MAY 07 | 50.504                              | 50.440                  | 59.0                     |
| 08     | 50.477                              | 50.460                  | 76.5                     |
| 09     | 50.482                              | 50.650                  | 120.5                    |
| 10     | 50.624                              | 50.590                  | 137.0                    |
| 11     | 50.487                              | 50.300                  | 117.5                    |
| MAY 14 | Markets Closed                      |                         |                          |
| 15     | 50.321                              | 50.180                  | 131.1                    |
| 16     | 50.136                              | 50.140                  | 127.5                    |
| 17     | 50.162                              | 50.260                  | 111.1                    |
| 18     | 50.342                              | 50.330                  | 132.5                    |
| MAY 21 | 50.609                              | 50.840                  | 148.3                    |
| 22     | 50.789                              | 50.645                  | 124.2                    |
| 23     | 50.438                              | 50.300                  | 184.0                    |
| 24     | 50.287                              | 50.340                  | 168.0                    |
| 25     | 50.449                              | 50.505                  | 106.5                    |
| MAY 28 | 50.774                              | 50.770                  | 160.5                    |
| 29     | 50.703                              | 50.500                  | 120.4                    |
| 30     | 50.584                              | 50.565                  | 177.5                    |
| 31     | 50.495                              | 50.500                  | 162.6                    |

JUN 01      50.750                      50.633                      150.0

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Source: Bankers Association of the Philippines

**CREDIT MARKET REPORT**  
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Interest rates on the 91-day Treasury bill sank to their lowest level since September 2000 as banks continued to park their excess liquidity in short term government securities. A 29.6 basis point drop in the interest rate on 91-day bills at the May 28 T-bill auction brought the rate to 9.037%. Rates on the 182-day bill dropped 66.3 basis points to settle at 10.87%. But the yield curve continued to steepen as 364-day bills saw interest rates drop only 4.5 basis points to 11.307%.

Despite the downturn in first quarter economic growth figures (see below), the policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) decided to leave key policy rates unchanged. Many banks and traders had expected new cuts in the BSP's overnight borrowing and lending rates (9.0% and 11.25%, respectively). However, BSP Deputy Governor Amando Tegangco told reporters that the BSP would wait to see May inflation figures before making a decision on future rate reductions.

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Domestic Interest Rates (in percent)  
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Treasury Bills  
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| Auction Date | 91 days  | 182 days | 364 days |
|--------------|----------|----------|----------|
| -----        | -----    | -----    | -----    |
| APR 23       | 9.855    | 10.959   | 11.368   |
| APR 30       | 10.102   | 11.324   | 11.725   |
| MAY 07       | no sales | no sales | no sales |
| MAY 15       | 9.513    | 10.915   | 11.350   |
| MAY 21       | 9.306    | 10.750   | 11.352   |
| MAY 28       | 9.037    | 10.087   | 11.307   |

Source: Bureau of the Treasury

# Prime Lending Rates of 14 Expanded Commercial Banks

| Date of Survey | Average | Range          |
|----------------|---------|----------------|
| APR 23         | 13.3529 | 10.75 - 14.855 |
| MAY 03         | 13.4683 | 11.25 - 15.102 |
| MAY 10         | 13.4861 | 11.25 - 15.012 |
| MAY 17         | 13.2171 | 10.75 - 14.513 |
| MAY 24         | 13.1013 | 10.75 - 14.50  |
| MAY 31         | 12.8919 | 10.25 - 14.037 |

Sources: Bangko Sentral ng Pilipinas; Press reports

## STOCK MARKET REPORT

News of a new terrorist kidnapping in Palawan over the May 26-27 weekend pushed the Philippine Stock Index (PHISIX) below the psychological barrier of 1400 early in the week, but prices recovered somewhat later on bargain hunting as the week went on. Overall, from its close of 1410.23 on May 25, the PHISIX moved to end at 1419.09 on June 1.

## Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

| Date   | PHISIX<br>Close | Value<br>(Million pesos) |
|--------|-----------------|--------------------------|
| APR 23 | 1437.16         | 259                      |
| 24     | 1444.00         | 304                      |
| 25     | 1462.18         | 431                      |
| 26     | 1437.50         | 302                      |
| 27     | 1420.36         | 398                      |
| APR 30 | 1378.84         | 446                      |
| MAY 01 | Markets Closed  |                          |
| 02     | 1435.88         | 765                      |
| 03     | 1430.39         | 376                      |
| 04     | 1442.46         | 405                      |

|                       |         |         |
|-----------------------|---------|---------|
| MAY 07                | 1431.91 | 466     |
| 08                    | 1427.28 | 567     |
| 09                    | 1441.77 | 352     |
| 10                    | 1443.85 | 643     |
| 11                    | 1484.83 | 1134    |
| MAY 14 Markets Closed |         |         |
| 15                    | 1457.97 | 497     |
| 16                    | 1461.79 | 311     |
| 17                    | 1453.03 | 376     |
| 18                    | 1448.62 | 397     |
| MAY 21                | 1446.20 | 363     |
| 22                    | 1451.20 | 6939 /a |
| 23                    | 1446.20 | 726     |
| 24                    | 1434.68 | 472     |
| 25                    | 1410.23 | 1068    |
| MAY 28                | 1395.12 | 412     |
| 29                    | 1385.43 | 511     |
| 30                    | 1396.50 | 399     |
| 31                    | 1402.29 | 568     |
| JUN 01                | 1416.09 | 669     |

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation

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Source: Philippine Stock Exchange

#### **PHILIPPINE ECONOMIC OUTLOOK RELEASED**

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The embassy is pleased to note that our Philippine Economic Outlook for June 2001 has been released, and is now available on the Embassy's internet website at <http://www.usembassy.gov/manila>. This tri-annual publication presents a broad overview of recent events in the Philippine economy and prospects for future developments.

#### **WEAK FIRST QUARTER FOR MANUFACTURING...**

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The National Statistics Office's (NSO) latest Monthly Integrated Survey of Selected Industries (MISSI) showed a

2% year-on-year decline in aggregate production volume during March 2001. That performance marked a third consecutive month of negative year-on-year growth. Ten of sixteen manufacturing sub-sectors posted production declines during the month (led by transport equipment, chemicals, wood and wood products, electrical machinery, wearing apparel, and basic metals). Sales volume mustered a 0.9% year-on-year expansion.

On average, the volume of production index contracted by 2.5% year-on-year during the first three months of 2001, a reversal from the 7.6% average expansion posted during 2000's comparable period. Sales volume grew an average annual rate of 2.9%, slowing from the 10.4% average year-on-year rate posted during 2000's first quarter. The results did not come as a surprise as businesses continued to struggle with the lagged effects of higher production and operating costs, while dealing with slowed world demand for major export products and, overall, weaker economic growth prospects.

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MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES

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|              | Year-on-Year % Change<br>Production<br>Volume | Net Sales<br>Volume |
|--------------|---|---------------------|
| January 2000 | 12.3  | 10.1                |
| February     | 7.7   | 10.5                |
| March        | 2.7   | 10.5                |
| April        | (2.2)   | 8.3                 |
| May          | 12.8  | 21.0                |
| June         | 13.6  | 8.0                 |
| July         | 19.5  | 5.7                 |
| August       | 9.4   | 13.2                |
| September    | 16.1  | 2.9                 |
| October      | 20.3  | 3.7                 |
| November     | 39.9  | 15.8                |
| December     | 10.4  | 7.7                 |
| January 2001 | (1.9)   | 1.0                 |
| February     | (3.7)   | 6.9                 |
| March        | (2.0)   | 0.9                 |

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Source: National Statistics Office

### **...DRAGS DOWN FIRST QUARTER GDP GROWTH**

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Just before the week ended, the government's National Statistical Coordination Board (NSCB) reported that real first-quarter 2001 Gross Domestic Product (GDP) grew by 2.5% year-on-year. This performance represented a deceleration from the 3.3% GDP growth rate posted during 2000's first quarter. It was also the weakest GDP expansion posted since the second quarter of 1999. A slowdown had been widely expected by both private and public sector economists -- an expectation which reflected, among others, the volatile political climate, investor uncertainties, and a slowing global economy.

The industrial sector -- which barely budged with 0.1% year-on-year growth -- was hardest hit. The sector's listless performance mainly stemmed from a 10.6% year-on-year decline in the construction sub-sector (as tight government finances exacerbated still-weak private sector activity); as well as the manufacturing's slowed expansion (i.e., 2.4%, from 6% during 2000's comparable period). Both the agriculture and service sectors mustered improved performances compared with their first-quarter 2000 growth rates. Agricultural output (up 2.3%) benefited from better weather conditions after typhoon-related losses capped the sector's first-quarter 2000 expansion to 0.4%. The service sector (up 4.5%) also mustered somewhat stronger growth than in the first quarter of 2000 (4%).

The government's current target is for full-year 2001 industrial sector output to muster 4.0-4.5% growth for GDP to expand by 3.8-4.3% this year. Those targets may prove challenging -- considering the worse-than-anticipated world economic slowdown, high domestic unemployment, intermittent pressures on the currency, and lingering political uncertainties. Given the first quarter performance, economic planning officials said they were now ruling out the high end of the government's targeted growth range. They further indicated that macroeconomic projections would be reviewed, including their possible impact on government revenues and the overall fiscal picture.

## **PRESIDENT VETOES TWO REVENUE ENHANCEMENT BILLS**

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President Macapagal-Arroyo vetoed two bills initiated under the Estrada administration aimed at enhancing revenue collections. She vetoed a lateral attrition and special incentives bill intended to spur the performance of revenue-generating agencies; and a bill upgrading the rank of the Court of Tax Appeals to a 'collegiate court' (similar to the Court of Appeals). Rank and file employees at both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) had strongly opposed the proposed lateral attrition law.

In her veto message, the President noted that the dismissal or transfer of affected employees by a Revenue Performance Evaluation Board (RPEB) without the necessary hearing violated a basic constitutional right to due process. Members of the House Ways and Means committee have argued in press interviews that this was not what the proposed law intended. They noted that the proposed law: a) emphasized that the system of lateral attrition be consistent with civil service rules and regulations; and b) gave affected employees and officers the right to appeal the RPEB's decision to the Civil Service Commission or Career Executive Service Board and even to the Supreme Court. Congressional staff also commented to the Embassy that the presidential veto seemed premature, as the RPEB had not been given the opportunity to draft detailed implementing rules and procedures for the attrition and awards system. Legislators lamented that the presidential veto had sent over two years of work down the drain. They noted that the legislative branch technically could push for the proposed law's passage by mustering a two-thirds vote in both houses for a veto override; however, with regular sessions of the current Congress scheduled to wrap-up next week, time was not on their side.

Meanwhile, President Macapagal-Arroyo noted that the proposed law upgrading the status and powers of the Court of Tax Appeals suffered from a "constitutional infirmity." A specific provision allowed affected parties to appeal the decisions and rulings of the Court of Tax Appeals before the Supreme Court (SC). This



provision, according to government lawyers, technically increased the SC's appellate jurisdiction. Article VI, Section 30 of the Philippine Constitution prohibits the legislative branch from passing laws affecting the appellate jurisdiction of the SC without the Court's approval -- a step which legislators apparently overlooked.

#### **LARGE FIRMS WRESTLE WITH MATURING OBLIGATIONS**

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In a disclosure to the Philippine Stock Exchange (PSE), publicly-listed food and beverage conglomerate RFM Corporation said it would need more time to meet redemption payments on US\$65 million of convertible bonds because of a "temporary cash flow mismatch." The bonds were issued in May 1996, mature in 2006, and carry an annual 2.75% interest rate. Among other features, holders had the option to redeem the bonds on May 30, 2001 at a redemption price equal to 128.71% of principal.

RFM officials said the firm is committed to servicing the interest due on the bonds and was pursuing several options to meet its obligations. This includes the sale of certain assets (reportedly including its stake in semiconductor subsidiary PSi Technologies Holdings) as part of a broader strategy to exit from non-core businesses and to concentrate on the branded, high-margin refreshments sector. RFM has engaged JP Morgan as financial advisor and law firm Sherman & Sterling as international counsel to assist it in arriving at a mutually beneficial arrangement with RFM's bondholders. While the company works on meeting its \$65 million debt, RFM officials said normal business operations would continue and that RFM would meet obligations incurred in the ordinary course of business in a timely manner.

Another large corporation -- Lopez-owned Benpres Holdings Corp. -- also faces obligations which start maturing next year. Analysts think the company could encounter difficulties in refinancing its debts because of investor concerns over some losing businesses (such as those of water concessionaire Maynilad and telecom company Bayantel) and, more broadly, lingering economic and political uncertainties. As a fallback measure, Benpres is considering raising \$200-\$250 million by divesting

from some subsidiaries (including some of its stakes in the cable television, broadcasting, and power generation businesses).

Although generally expected to weather current (and potential) debt servicing challenges, the above developments demonstrate that even the Philippines' Top 1000 corporations have not been spared from cash flow difficulties. Their experience suggests that smaller firms could be experiencing (or are prone to) even more serious debt problems. For the banking system, this could spell further increases in non-performing loans (estimated at 16.7% of commercial banking system credits as of March 2001 -- the highest recorded NPL ratio thus far).